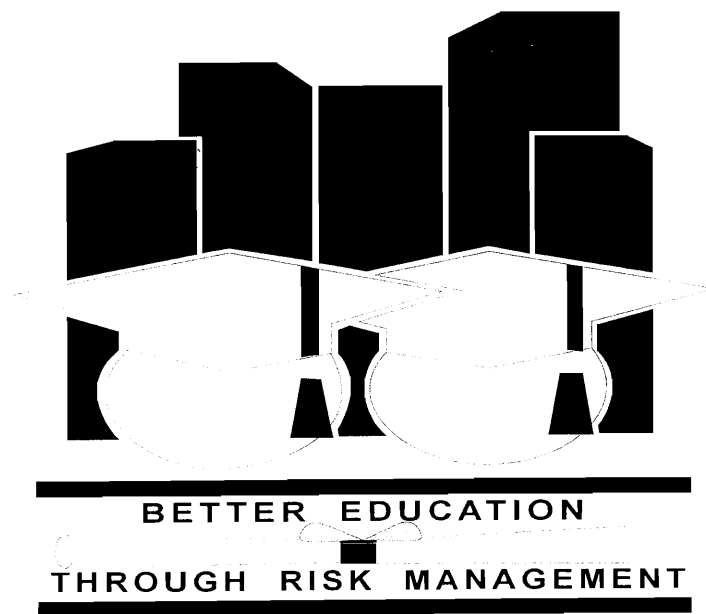


# MIDDLE CITIES RISK MANAGEMENT TRUST

## COMPREHENSIVE ANNUAL FINANCIAL REPORT *For Period Ended June 30, 2007*



## FINANCIALS

# **Middle Cities Risk Management Trust**

---

**Financial Report  
with Additional Information  
June 30, 2007**

# **Middle Cities Risk Management Trust**

---

## **Contents**

<b>Report Letter</b>	<b>I</b>
<b>Management's Discussion and Analysis</b>	<b>2-6</b>
<b>Financial Statements</b>	
Statement of Net Assets	7
Statement of Revenue, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10-21
<b>Additional Information</b>	<b>22</b>
<b>Report Letter</b>	<b>23</b>
Required Supplementary Information - Schedule of Claims Information for All Lines of Coverages	24-25
Statement of Operations and Changes in Members' Equity by Policy Year - Inception through June 30, 2007	26-27
Statement of Operations and Changes in Members' Equity by Policy Year	28-29



Plante & Moran, PLLC  
Suite 500  
2601 Cambridge Court  
Auburn Hills, MI 48326  
Tel: 248.375.7100  
Fax: 248.375.7101  
plantemoran.com

## Independent Auditor's Report

To the Board of Directors  
Middle Cities Risk Management Trust

We have audited the accompanying statement of net assets of Middle Cities Risk Management Trust as of June 30, 2007 and 2006 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Middle Cities Risk Management Trust at June 30, 2007 and 2006 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

August 20, 2007

# **Middle Cities Risk Management Trust**

## **Management's Discussion and Analysis**

This section of Middle Cities Risk Management Trust's (the "Trust") annual financial report presents our discussion and analysis of the Trust's financial performance during the year ended June 30, 2007. Please read it in conjunction with the Trust's financial statements, which immediately follow this section.

### **Using this Annual Report**

The Trust is a public entity self-insurance pool that provides property and liability coverages to its participating members. Membership is open to all school districts, selective district libraries, community colleges, and public school academies in the state of Michigan. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Trust. This is followed by the statement of cash flows, which presents detailed information about the changes in the Trust's cash position during the year.

### **Financial Overview**

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information.

The basic financial statements, which follow this section, provide both long-term and short-term information about the Trust's financial status. The Trust uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. These statements reflect only the risk carried by the Trust, which also includes any potential unrecoverable reinsurance claims. The three basic financial statements presented are as follows:

- **Statement of Net Assets** - This statement presents information reflecting the Trust's assets, liabilities, and net assets.
- **Statement of Revenues, Expenses, and Changes in Net Assets** - This statement reflects the operating and nonoperating revenues and expenses for the previous two fiscal years. Operating revenues consist primarily of member contributions, with the major sources of operating expenses being claims and claims adjustment expense, general and administrative expenses, and reinsurance costs. Nonoperating revenues consist primarily of investment income.
- **Statement of Cash Flows** - This statement is presented on the direct method of reporting, and reflects cash flows from operating activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.

# Middle Cities Risk Management Trust

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information

The statements report the Trust's net assets and how they have changed. Net assets - the difference between the Trust's assets and liabilities - is one way to measure the Trust's financial health, or position. Over time, increases and decreases in the Trust's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information follows:

	June 30		
	2007	2006	2005
<b>Total Assets</b>			
Current assets	\$ 22,389,283	\$ 19,070,690	\$ 17,607,033
Long-term assets	<u>1,744,931</u>	<u>1,791,591</u>	<u>1,587,567</u>
Total assets	24,134,214	20,862,281	19,194,600
<b>Total Liabilities</b>			
Current liabilities	3,800,198	4,889,941	5,089,344
Long-term liabilities	<u>3,916,336</u>	<u>2,878,225</u>	<u>2,660,799</u>
Total liabilities	<u>7,716,534</u>	<u>7,768,166</u>	<u>7,750,143</u>
<b>Net Assets</b>			
Invested in capital assets	198,284	209,616	220,948
Unrestricted net assets	<u>16,219,396</u>	<u>12,884,499</u>	<u>11,223,509</u>
Total net assets	<u><b>\$ 16,417,680</b></u>	<u><b>\$ 13,094,115</b></u>	<u><b>\$ 11,444,457</b></u>
	Year Ended June 30		
	2007	2006	2005
<b>Changes in Net Assets</b>			
Total revenue	\$ 13,114,730	\$ 11,411,499	\$ 11,327,073
Total expenses	<u>8,352,669</u>	<u>8,306,979</u>	<u>8,553,426</u>
Excess of revenue over expenses	4,762,061	3,104,520	2,773,647
Distribution to members	<u>1,438,496</u>	<u>1,454,862</u>	<u>1,373,889</u>
<b>Increase in Net Assets</b>	<u><b>\$ 3,323,565</b></u>	<u><b>\$ 1,649,658</b></u>	<u><b>\$ 1,399,758</b></u>

# **Middle Cities Risk Management Trust**

## **Management's Discussion and Analysis (Continued)**

In addition to net assets, when assessing the overall health of the Trust, the reader needs to consider other nonfinancial factors such as the legal climate in the state, the general state of the financial markets, and the level of risk prevention undertaken by the Trust and its members.

The Trust cannot control the first two factors. However, since its inception, the Trust has been a leader in implementing aggressive risk prevention programs. It provides extensive training to its members in various areas of school district operations. It makes use of several advisory committees comprised of member employees holding job responsibilities related to the activities of the committee.

### **Condensed Comparative Financial Highlights**

- Overall, the Trust's net assets increased by \$3,323,565, from \$13,094,115 to \$16,417,680 due to an increase in member contributions discussed below as well as a decrease in general operating expenses.
- Total revenue increased by \$1,703,231, from \$11,411,499 to \$13,114,730. Member contributions for coverage increased by \$619,508 while investment income, including the change in the fair value of investments, increased by \$1,083,723. In addition, the Trust realized a loss of \$21,290 from its investment in a real estate joint venture.
- Risk management, underwriting, and other administrative expenses increased by \$52,111, from \$1,032,828 to \$1,084,939, due to an increase in consulting fees which was partially offset by an overall decrease in general operating expenses.
- Incurred claims and claims adjustment expenses were \$2,452,988 and \$3,413,587 for the years ended June 30, 2007 and 2006, respectively.
- Outside reinsurance costs increased by \$961,996, from \$3,831,456 to \$4,793,452.
- Reserves (reported net of estimated reinsurance recoveries), both reported and incurred but not reported, increased by \$18,224.
- Investment income of \$1,796,591 was earned this year compared to \$712,868 in the prior year. This increase was a result of market interest rates during the current year.

# **Middle Cities Risk Management Trust**

## **Management's Discussion and Analysis (Continued)**

### **Cash and Cash Equivalents and Investments**

Cash and cash equivalents and investments comprise the most significant numbers in the asset section of the Trust's statement of net assets.

Accordingly, the board of directors has established investment policies. The fundamental investment objectives are:

1. To maintain prudent credit standards for all investments
2. To establish a strong foundation of investment positioned to perform well under current and anticipated future market conditions
3. To set forth a disciplined buy/sell process for every security in the IMP portfolio
4. To maximize return on cash assets while minimizing risks to principal and interest and to ensure that liquidity funds are available to respond to anticipated and unanticipated cash flow needs
5. To minimize concerns for safety of cash and investments

Investment guidelines for U.S. equities provide for investing in a broadly diversified portfolio of U.S. dollar dominated debt securities issued by the U.S. government, agencies, states, localities, and U.S. domiciled companies. All debt securities must have a quality rating of BAA/BBB or above. The overall portfolio quality rating should be A+ or above.

Investment guidelines for cash and cash equivalents provide that managers using cash and cash equivalents in their portfolio are expected to adhere to the American Banking Association investment standards on security type, quality, and maturity for short-term investment funds (STIF), except for money market funds.

Currently, all investments of the Trust are professionally managed and invested consistent with the safeguards and diversity which aims to, at a minimum, preserve overall portfolio principal. Investments are held in trust by Comerica Bank. Asset Allocation Management acts as the investment portfolio manager.

### **Reserves for Unpaid Claims**

The Trust's most significant numbers in the liability section of the statement of net assets are the reserves for reported and incurred but not reported claims and claim adjustment expenses. Tillinghast, a Towers Perrin Company, conducts an independent actuarial analysis to determine the adequacy and reasonableness of such reserves.

## **Middle Cities Risk Management Trust**

---

### **Management's Discussion and Analysis (Continued)**

#### **Real Estate Investment Joint Venture**

Earlier in 2003-2004, the board of the Middle Cities Risk Management Trust entered into a joint venture with its parent, Middle Cities Education Association, and an unaffiliated third party, the North Central Association/Commission on Accreditation and School Improvement, for the purpose of purchasing land and developing/constructing joint office facilities. The Trust had, in prior years, set aside approximately \$920,000 for such new office facilities. A total of \$200,000 of those previously set-aside funds had been approved as a loan to the parent for its share of the land purchase. The Trust contributed an additional \$270,000 to the joint venture project in 2005-2006. The building was completed in 2005-2006 and is now occupied by the entities. The Trust's share of the joint venture at June 30, 2007 is \$795,322.

Respectfully yours,

**Middle Cities Risk Management Trust**

---

Chief Operating Officer

# Middle Cities Risk Management Trust

## Statement of Net Assets

	June 30	
	2007	2006
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 886,881	\$ 555,907
Investments (Note 2)	20,887,982	17,629,728
Accrued interest on investments	142,579	129,266
Receivables:		
Member	28,246	23,288
Affiliate (Note 6)	7,071	23,362
Excess insurance - Specific	-	372,712
Excess insurance - Aggregate	39,493	40,236
Other	7,077	8,759
Other assets	1,191	1,000
Note receivable (Note 6)	765,363	778,757
Funds on deposit with claims administrator	374,725	273,038
Investment in real estate joint venture (Note 8)	795,322	816,612
Property - Net (Note 3)	198,284	209,616
Total assets	24,134,214	20,862,281
<b>Liabilities</b>		
Accounts payable:		
Trade	88,839	10,735
Affiliate (Note 6)	154,930	80,475
Excess insurance - Aggregate	-	107,549
Unearned contributions	435,708	-
Dividends payable	25,622	618,998
Accrued service fees (Note 7)	68,024	21,742
Other accrued liabilities	10,441	13,921
Allowances for unsettled claims and claims incurred but not reported (Note 4):		
Due within one year	3,016,634	4,036,521
Due in more than one year	3,916,336	2,878,225
Total liabilities	7,716,534	7,768,166
<b>Net Assets</b>		
Invested in capital assets	198,284	209,616
Unrestricted	16,219,396	12,884,499
Net assets	<u>\$ 16,417,680</u>	<u>\$ 13,094,115</u>

# Middle Cities Risk Management Trust

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2007	2006
<b>Operating Revenue</b>		
Member contributions	\$ 11,318,139	\$ 10,698,631
Interest and dividends	1,211,857	1,003,013
Realized gain on sales of investments	200,825	307,740
Net appreciation (depreciation) in fair value of investments (Note 2)	383,909	(597,885)
Total revenue	13,114,730	11,411,499
<b>Operating Expenses</b>		
Provision for claims:		
Payments	2,434,764	3,903,888
Change in liabilities for unsettled claims and claims incurred but not reported (Note 4)	18,224	(490,301)
Excess insurance premiums	4,793,452	3,831,456
Service fees	464,820	454,660
Administrative expenses:		
Salary, wages, and fringe benefits	122,789	148,740
Taxes and insurance	23,568	44,790
Professional fees	191,572	66,495
Office expenses	263,996	272,753
Meetings and travel	16,134	32,079
STE program expense	234	5,418
Other	1,826	7,893
Total expenses	8,331,379	8,277,871
<b>Operating Income</b>	4,783,351	3,133,628
<b>Nonoperating Expenses</b>		
Distributions to members	1,438,496	1,454,862
Loss from investment in real estate joint venture (Note 8)	21,290	29,108
Total nonoperating expenses	1,459,786	1,483,970
<b>Change in Net Assets</b>	3,323,565	1,649,658
<b>Net Assets - Beginning of year</b>	13,094,115	11,444,457
<b>Net Assets - End of year</b>	<u>\$ 16,417,680</u>	<u>\$ 13,094,115</u>

# Middle Cities Risk Management Trust

## Statement of Cash Flows

	Year Ended June 30	
	2007	2006
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 11,516,553	\$ 10,723,465
Cash payments to suppliers for goods and services	(5,235,990)	(5,071,175)
Claims and claims adjustment expenses paid	(2,434,764)	(3,903,888)
Cash payments to members for distributions	(2,031,872)	(835,864)
Net cash provided by operating activities	1,813,927	912,538
<b>Cash Flows from Investing Activities</b>		
Interest and dividend income	1,211,857	1,003,013
Investment in joint venture	(21,290)	(299,746)
Proceeds from sale of investments	26,568,658	20,331,388
Purchase of investments	(29,242,178)	(21,640,049)
Net cash used in investing activities	(1,482,953)	(605,394)
<b>Net Increase in Cash and Cash Equivalents</b>	330,974	307,144
<b>Cash and Cash Equivalents - Beginning of year</b>	555,907	248,763
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 886,881</u></u>	<u><u>\$ 555,907</u></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 4,783,351	\$ 3,133,628
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	11,332	11,332
Interest and dividends	(1,211,857)	(1,003,013)
Realized gain on sales of investments	(200,825)	(307,740)
Change in fair value of investments	(383,909)	597,885
Distributions to members	(1,438,496)	(1,454,862)
Investment in joint venture	21,290	29,108
(Increase) decrease in assets:		
Accrued interest	(13,313)	5,226
Receivables	292,315	35,490
Other assets	(191)	11,578
Deposits	(101,687)	(164,117)
Increase (decrease) in liabilities:		
Accounts payable	(440,817)	501,473
Unearned premiums	435,708	-
Allowance for unsettled claims and claims incurred but not reported	18,224	(490,301)
Accrued liabilities	42,802	6,851
Net cash provided by operating activities	<u><u>\$ 1,813,927</u></u>	<u><u>\$ 912,538</u></u>

There have been no noncash transactions in 2007 and 2006.

# **Middle Cities Risk Management Trust**

---

## **Notes to Financial Statements June 30, 2007 and 2006**

### **Note I - Nature of Entity and Significant Accounting Policies**

Middle Cities Risk Management Trust (the "Trust") was established July 1, 1987 under the laws of the State of Michigan as a governmental group risk retention trust. Organizational activity relating to the formation of the Trust, including the selection of the board of directors, began in September 1986 under the sponsorship of Middle Cities Education Association, the founding association. The Trust provides a single multiperil contract under which the members are covered for various types of risk including: property all risk; general and automobile liability; crime and boiler machinery; and loss and physical damage to automobiles, mobile equipment, EDP software, fine arts, and other miscellaneous property. Membership in the Trust is open to all school districts affiliated with the Middle Cities Education Association, of which there are 37 participating in the Trust. The basic financial statements as presented herein are an accumulation of the financial information from all open policy years.

The program's general objectives are to manage the Trust, provide risk management that consists of compensating members for losses, costs, and expenses related to the stated coverages, and utilize the funds contributed by members to defend any member of the pool against stated liability or loss. Membership in the Trust is considered after a formal request supported by a resolution from the Board of Education of the applying school district. Any member joining the Trust is required to remain a member for a minimum of one full year. A member may withdraw from the Trust by giving written notice at least 180 days prior to the end of that member's current term of membership.

Trust underwriting and rate-setting policies are established after consultation with excess insurance underwriters and actuaries. Members are given 30 days' notice to make annual contributions to the Trust. The annual contributions are based on a final budget approved by the board of directors.

# Middle Cities Risk Management Trust

---

## Notes to Financial Statements June 30, 2007 and 2006

### Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

The accounting policies of the Trust conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental insurance pools. Private sector standards of accounting issued prior to December 1, 1989 are generally followed to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Trust has elected not to follow private sector standards issued after November 30, 1989. Contributions for premiums received from members, which are calculated by the Trust, are recorded as revenue. Claim losses, along with excess insurance premiums, service fees, and administrative costs, are recorded as expenses. The estimated total cost of claim losses (including future claim adjustment expenses) is accrued at present value based on the estimate of claims that ultimately will be filed for an insurance period. It is anticipated that to the extent the group's contributions finally are deemed to exceed claim losses and other costs, the excess amount will be refunded at some time in the future. If necessary, funding deficits in individual policy years will be recovered through additional member contributions assessed to members of that policy year. A member's contributions in excess of his or her claim losses and his or her share of other costs and expenses, including, under certain circumstances, a share of group claim losses, will be refunded upon board approval.

The Trust distinguishes operating revenues and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the Trust's principal ongoing operations. The principal operating revenue relates to members' contributions and investment income. Operating expenses include the cost of services and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Cash Equivalents** - The Trust considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Investments** - Investments consist of U.S. government securities with maturities of greater than three months, agency-backed securities, collateralized mortgage obligations, public, corporate and foreign bonds, and common and preferred stocks. All investments are recorded at fair value. For agency-backed securities and collateralized mortgage obligations, certain prepayment assumptions are used in determining the fair value. Unrealized gains and losses are credited or charged to income. The Trust has foreign bonds recorded at fair market value of \$237,025 and \$129,271 at June 30, 2007 and 2006, respectively.

**Accounts Receivable** - Trade accounts receivable are stated at net invoice amounts. Collectibility of balances is reviewed periodically. Any amounts deemed to be uncollectible are written off at that time. No allowance for bad debts is recorded because management considers all accounts receivable to be collectible.

# Middle Cities Risk Management Trust

---

## Notes to Financial Statements June 30, 2007 and 2006

### Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

**Property** - Property is recorded at cost, less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of depreciable assets. Costs of maintenance and repairs are charged to expense when incurred.

**Unearned Contributions** - Unearned contributions represent member contributions received in advance for the 2007/2008 fund year.

**Federal Income Tax Status** - The Trust has received a determination from the Internal Revenue Service that its income is exempt from taxation under Internal Revenue Code Section 115. Accordingly, no provision has been made for taxes on income.

**Contribution Deficiency** - Anticipated investment income is considered in determining if a contribution deficiency exists.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates related to allowances for unsettled claims and claims incurred but not reported are described in Note 4.

### Note 2 - Deposits and Investments

The Trust's investment policy authorizes the Trust to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Trust investments are in accordance with the State Insurance Code.

Trust investments are held in the Trust's name. The Trust has designated Comerica Bank for the deposit of its investments.

The Trust's cash and investments are subject to several types of risk, which are examined in more detail below:

# **Middle Cities Risk Management Trust**

---

## **Notes to Financial Statements June 30, 2007 and 2006**

### **Note 2 - Deposits and Investments (Continued)**

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned to it. The Trust does not have a deposit policy for custodial credit risk of bank deposits. At year end, the Trust's deposit balance of \$377,147 had \$228,628 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Trust believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Trust evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Trust's investment policy does not restrict investment maturities. The Trust's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Trust's cash requirements. The weighted average maturity of debt securities is 4.76 years and 3.92 years for the years ended June 30, 2007 and 2006, respectively.

**Credit Risk** - The State Insurance Code and the Trust's investment policy do not limit investments in commercial paper to specific ratings issued by nationally recognized statistical organizations.

# Middle Cities Risk Management Trust

## Notes to Financial Statements June 30, 2007 and 2006

### Note 2 - Deposits and Investments (Continued)

At June 30, 2007, the Trust had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Asset-backed securities	\$ 2,209,552	1.00
CMO	6,422,241	3.03
U.S. agencies	1,228,648	0.09
Public corporate bonds	2,092,506	2.49
Commercial MBS	2,028,721	5.40
Foreign bonds	237,025	3.14
Taxable municipal bonds	2,025,576	2.61
Convertible preferred	410,491	19.18
Convertible bonds	4,042,444	4.07
Common and preferred stock	190,778	N/A
Total fair value	<u>\$ 20,887,982</u>	
Portfolio weighted average maturity		<u>4.76</u>

At June 30, 2006, the Trust had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Asset-backed securities	\$ 1,689,157	1.7
CMO	5,479,362	3.9
U.S. agencies	397,703	3.43
Public corporate bonds	2,278,049	3.11
Commercial MBS	1,759,694	5.18
Foreign bonds	129,271	2.41
Taxable municipal bonds	1,871,414	3.49
Convertible preferred	552,223	3.42
Convertible bonds	3,241,875	3.89
Common and preferred stock	230,980	N/A
Total fair value	<u>\$ 17,629,728</u>	
Portfolio weighted average maturity		<u>3.92</u>

# Middle Cities Risk Management Trust

## Notes to Financial Statements June 30, 2007 and 2006

### Note 2 - Deposits and Investments (Continued)

At June 30, 2007, the credit quality ratings of the Trust's debt securities, without regard to investment type, are as follows:

Rating	Fair Value
AGY/GOVT	\$ 6,184,844
AAA	8,210,356
AA+	566,521
AA	1,037,033
AA-	574,237
A+	1,633,974
A	516,034
A-	742,725
BBB+	709,957
BBB	236,713
BBB-	146,713
BB+	136,500
B	192,375
Total	<u>\$ 20,887,982</u>

At June 30, 2006, the credit quality ratings of the Trust's debt securities, without regard to investment type, are as follows:

Rating	Fair Value
AGY/GOVT	\$ 6,145,952
AAA	5,452,557
AA+	162,528
AA	581,496
AA-	96,642
A+	1,102,290
A	672,923
A-	803,522
BBB+	620,464
BBB	481,009
BBB-	861,421
BB+	292,012
B	209,334
Not Rated	147,578
Total	<u>\$ 17,629,728</u>

# Middle Cities Risk Management Trust

## Notes to Financial Statements June 30, 2007 and 2006

### Note 2 - Deposits and Investments (Continued)

The rating organization used by the Trust to rate its investments is Standard & Poor's.

The cost, fair market value, and net depreciation in fair value of investments at June 30 is as follows:

	2007	2006
Cost	\$ 21,084,476	\$ 18,210,131
Fair market value	<u>20,887,982</u>	<u>17,629,728</u>
Net depreciation in fair value of investments	<u>\$ (196,494)</u>	<u>\$ (580,403)</u>

**Concentration of Credit Risk** - The Trust places no limit on the amount it may invest in any one issuer. There were no investments that individually exceed 5 percent of the Trust's total investments at June 30, 2007.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in a currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The Trust's investment policy does not address foreign currency risk. The Trust's investments in foreign bonds, \$237,025 and \$129,271 at June 30, 2007 and 2006, respectively, are subject to foreign currency risk.

### Note 3 - Property

Cost of property and depreciable lives are summarized as follows:

	2007	2006	Depreciable Life - Years
Buildings	\$ 324,218	\$ 324,218	31.5
Building improvements	<u>21,370</u>	<u>21,370</u>	10-15
Total cost	345,588	345,588	
Less accumulated depreciation	<u>147,304</u>	<u>135,972</u>	
Net carrying amount	<u>\$ 198,284</u>	<u>\$ 209,616</u>	

There were no additions or deletions of fixed assets in 2007 or 2006. Total depreciation expense was \$11,332 for both 2007 and 2006.

# Middle Cities Risk Management Trust

## Notes to Financial Statements June 30, 2007 and 2006

### Note 4 - Allowances for Unsettled Claims and Claims Incurred but Not Reported

As discussed in Note 1, the Trust establishes a liability for both reported and unreported claims that includes estimates of both future losses and related claim adjustment expenses.

At June 30, 2007 and 2006, the estimates are as follows:

	<u>2007</u>	<u>2006</u>
Claims filed at June 30 that remain unsettled as of that date (estimated by insurance service provider)	\$ 5,330,942	\$ 2,618,869
Estimate of claims incurred prior to June 30, but not reported as of that date, that are expected to be filed in the future (based on the 90th percentile of expected losses)	3,850,904	4,627,107
Less portion to be paid by excess insurance carrier	<u>(2,163,174)</u>	<u>(241,705)</u>
Net undiscounted reserves	7,018,672	7,004,271
Less effect of discount	<u>(85,702)</u>	<u>(89,525)</u>
Total	<u>\$ 6,932,970</u>	<u>\$ 6,914,746</u>

For the years ended June 30, 2007 and 2006, the estimates of the claims incurred but not reported as of those dates were actuarially determined and are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. The reserves for unsettled claims and claims incurred but not reported are presented at present value using a discount rate of 1 percent for 2007 and 2006 and a 90 percent contingency margin confidence level. Although management believes that the provision for unpaid claims is adequate, no assurance can be given that the ultimate settlement of these liabilities may not be greater or less than such estimates. Any future adjustments to these amounts will affect the reported results of future periods.

# Middle Cities Risk Management Trust

## Notes to Financial Statements June 30, 2007 and 2006

### Note 4 - Allowances for Unsettled Claims and Claims Incurred but Not Reported (Continued)

The following table represents changes in the unpaid claims for the Trust for the years ended June 30, 2007 and 2006:

	2007	2006
Unpaid claims and claims adjustment expenses -		
Beginning of fiscal year	\$ 6,914,746	\$ 7,405,047
Incurring claims and claims adjustment expenses:		
Provisions for insured events of the current		
fiscal year	5,446,299	4,252,833
Change in provision for insured events		
of prior fiscal years	<u>(1,071,843)</u>	<u>(1,788,340)</u>
Total incurred claims and claims		
adjustment expenses	4,374,456	2,464,493
Payments:		
Claims and claims adjustment expenses		
attributable to insured events of the current		
fiscal year	1,316,575	944,996
Claims and claims adjustment expenses		
attributable to insured events of prior		
fiscal years	<u>1,118,189</u>	<u>2,958,892</u>
Total payments	2,434,764	3,903,888
Change in amount to be paid by excess		
insurance carrier	<u>(1,921,468)</u>	<u>949,094</u>
Unpaid claims and claims adjustment expenses -		
End of fiscal year	<u>\$ 6,932,970</u>	<u>\$ 6,914,746</u>

Incurring claims relating to prior years decreased during 2007 and 2006 due to claims settling for amounts different from those originally estimated.

# Middle Cities Risk Management Trust

## Notes to Financial Statements June 30, 2007 and 2006

### Note 5 - Insurance Coverage

The Trust has acquired excess liability insurance coverage for both specific claims and aggregate claims paid by the Trust. The specific insurance policy will cover payments for any specific claims in excess of the amounts shown below, up to the maximum coverage shown below. Under the aggregate policy, the insurance carrier will pay for all claims paid in excess of the loss fund as shown below. Upon exhaustion of the loss fund, the excess insurance carrier becomes the primary insurer to the extent of the coverage provided in the contract as specified below:

Accident Date by Insurance Period	Deductible	Specific Occurrence		Aggregate Reinsurance		
		In Excess of	Maximum Coverage	Loss Fund	Maximum Coverage	
Policy year 19:						
General and auto liability	\$ -	\$ 600,000	\$ 5,000,000	***	*	Statutory
Damage to insured's property	-	500,000	600,000,000		*	Statutory
Damage to insured's mobile equipment, EDP, software, and fine arts	1,000	500,000	600,000,000		*	Statutory
Employee dishonesty, internal and external robbery, and forgery	1,000	500,000	-		*	**
Boiler and machinery	1,000	1,000	50,000,000		*	**
Policy year 20:						
General and auto liability	-	600,000	5,000,000	***	*	Statutory
Damage to insured's property	-	500,000	600,000,000		*	Statutory
Damage to insured's mobile equipment, EDP, software, and fine arts	1,000	500,000	600,000,000		*	Statutory
Employee dishonesty, internal and external robbery, and forgery	1,000	500,000	-		*	**
Boiler and machinery	1,000	1,000	50,000,000		*	**

## Middle Cities Risk Management Trust

### Notes to Financial Statements June 30, 2007 and 2006

#### Note 5 - Insurance Coverage (Continued)

\* The maximum exposure to the Trust for any combination of the above types of claims is as follows:

Years Ended June 30	Amount
2007	\$ 5,500,000
2006	5,400,000
2005	5,100,000
2004	5,040,000
2003	4,000,000
2002	2,414,650
2001	2,400,000
2000	2,265,409
1999	2,184,383
1998	2,114,000
1997	2,114,000
1996	2,262,000
1995	2,230,000
1994	2,231,500
1993	2,341,167
1992	2,400,000
1991	2,925,000
1990	2,905,000
1989	3,000,000
1988	3,250,000

\*\* Liability reverts back to the school district after the specific limit is reached.

\*\*\* Certain school districts have purchased additional coverage for general and auto liability.

#### Note 6 - Related Party Transactions

Middle Cities Education Association, an affiliated organization, performs various administrative services and pays certain expenses on behalf of the Trust. Expenses incurred by the Trust for these services totaled approximately \$370,000 and \$420,000 for the years ended June 30, 2007 and 2006, respectively. Included in these amounts are \$209,897 of management fees for the years ended June 30, 2007 and 2006. The Trust had funds payable to the affiliated organization totaling \$154,930 and \$80,475 at June 30, 2007 and 2006, respectively.

# Middle Cities Risk Management Trust

## Notes to Financial Statements June 30, 2007 and 2006

### Note 6 - Related Party Transactions (Continued)

**Note Receivable** - The Trust has a note receivable from the affiliated organization, the balance of which is \$765,363 and \$778,757 at June 30, 2007 and 2006, respectively. Payments of \$4,142, including interest of 4.7 percent, are due monthly through December 2009, at which time any unpaid principal and interest are due in full. The annual payments are as follows:

2008	\$ 14,038
2009	14,712
2010	<u>736,613</u>
Total	<u>\$ 765,363</u>

Middle Cities Workers' Compensation Fund, an affiliated organization, reimburses the Trust for certain administrative costs. The total amount of expenses incurred was approximately \$39,000 and \$56,000 for the years ended June 30, 2007 and 2006, respectively. Affiliate receivables at June 30, 2007 and 2006 totaled \$7,071 and \$23,362, respectively.

### Note 7 - Contingencies

Under the current service contract with the claims administrator, additional fees, which are based on the number of claims filed, could be assessed. Management's best estimate of additional fees to be charged is \$68,024 and \$21,742 at June 30, 2007 and 2006, respectively. These amounts are recorded in the financial statements.

### Note 8 - Joint Venture

The Trust entered into a joint venture with Middle Cities Education Association (MCEA), a related party, and The North Central Association/Commission on Accreditation and School Improvement (NCACASI) for the purpose of owning joint office facilities within the greater Lansing, Michigan geographical area. Each member of the joint venture has a one-third interest in the joint venture. The Trust's investment is reported at its equity in the joint venture. Loss from the joint venture was \$21,290 and \$29,108 in 2007 and 2006, respectively.

## **Additional Information**

---



Plante & Moran, PLLC  
Suite 500  
2601 Cambridge Court  
Auburn Hills, MI 48326  
Tel: 248.375.7100  
Fax: 248.375.7101  
plantemoran.com

To the Board of Directors  
Middle Cities Risk Management Trust

We have audited the financial statements of Middle Cities Risk Management Trust for the years ended June 30, 2007 and 2006. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information on pages 24 and 25 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The additional information on pages 26-29 is presented for the purpose of additional analysis and is also not a required part of the basic financial statements. The information on pages 24-29 has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

August 20, 2007

# Middle Cities Risk Management Trust

## Required Supplementary Information Schedule of Claims Information for All Lines of Coverages

### Claims Development Information

The table on page 25 illustrates how the Trust's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Trust as of the end of each of the last 10 years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of the Trust, including overhead and claims expense not allocable to individual claims.
- (3) This line shows the Trust's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- (6) This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years. The computations include discounting for present value and a 90 percent confidence level for the contingency margin. A part of the annual change in estimated claims will be an increase attributable to accretion in the present value computation. That amount is not shown separately.

# Middle Cities Risk Management Trust

## Schedule of Claims Information for All Lines of Coverages (Continued)

### Required Supplementary Information

Fiscal Year Ended June 30	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
(1) Required contributions and investment revenue:										
Earned	\$ 6,336,322	\$ 5,958,952	\$ 6,172,866	\$ 6,670,587	\$ 6,431,001	\$ 9,864,499	\$ 10,681,200	\$ 11,327,073	\$ 11,397,857	\$ 13,114,730
Ceded	1,903,348	1,957,357	2,016,585	2,190,980	2,483,456	3,860,354	4,018,450	4,121,787	3,831,456	4,793,452
Net earned	4,432,974	4,001,595	4,156,281	4,479,607	3,947,545	6,004,145	6,662,750	7,205,286	7,566,401	8,321,278
(2) Unallocated expenses	927,988	886,852	1,032,795	1,028,282	987,171	980,094	1,122,481	1,021,092	1,032,828	1,084,939
Policy Year Ended June 30										
(3) Estimated incurred claims and expenses -										
End of policy year:										
Incurred	2,581,890	3,765,511	4,714,434	4,323,262	3,494,559	4,497,298	4,308,671	4,424,359	4,252,833	5,446,299
Ceded	700,652	1,636,484	2,480,844	2,006,147	1,178,782	743,343	-	21,510	-	464,500
	1,881,238	2,129,027	2,233,590	2,317,115	2,315,777	3,753,955	4,308,671	4,402,849	4,252,833	4,981,799
(4) Paid (cumulative) as of:										
End of policy year	468,817	758,038	1,459,516	996,877	525,609	689,726	995,956	1,166,212	944,996	1,316,575
One year later	971,469	1,809,030	2,055,245	1,590,533	1,465,310	1,322,288	1,516,610	2,034,318	1,591,870	-
Two years later	1,112,876	1,935,835	2,265,409	2,413,364	1,608,375	1,956,315	2,820,749	2,157,359	-	-
Three years later	1,638,497	2,113,063	2,265,358	2,400,000	1,637,851	2,551,720	2,854,920	-	-	-
Four years later	1,697,815	2,075,592	2,265,409	2,282,558	1,704,704	2,820,966	-	-	-	-
Five years later	1,700,697	2,104,087	2,265,409	2,400,000	1,743,922	-	-	-	-	-
Six years later	1,697,375	2,104,342	2,265,409	2,400,013	-	-	-	-	-	-
Seven years later	1,707,414	2,104,322	2,265,409	-	-	-	-	-	-	-
Eight years later	1,707,414	2,104,467	-	-	-	-	-	-	-	-
Nine years later	1,712,659	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded claims and expenses	26,298	1,743,462	1,282,571	-	2,295,848	5,400,000	114,142	-	-	464,500
(6) Re-estimated incurred claims and expenses:										
End of policy year	1,881,238	2,129,027	2,233,590	2,317,115	2,315,777	3,753,955	4,308,673	4,402,849	4,252,833	4,981,799
One year later	1,918,706	2,154,480	2,250,826	2,296,459	2,386,928	3,580,393	3,593,181	3,507,071	2,861,257	-
Two years later	1,626,867	2,163,153	2,265,409	2,413,337	2,166,278	3,656,112	3,413,306	2,908,187	-	-
Three years later	1,826,083	2,193,967	2,265,358	2,400,000	2,001,671	3,724,146	3,161,467	-	-	-
Four years later	1,766,912	2,174,812	2,265,409	2,282,558	2,043,993	3,359,375	-	-	-	-
Five years later	1,700,697	2,152,286	2,265,409	2,400,000	2,107,732	-	-	-	-	-
Six years later	1,716,666	2,104,339	2,265,409	2,400,013	-	-	-	-	-	-
Seven years later	1,707,414	2,104,319	2,265,409	-	-	-	-	-	-	-
Eight years later	1,707,414	2,104,467	-	-	-	-	-	-	-	-
Nine years later	1,712,659	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred claims and expenses - End of policy year	(173,824)	(24,708)	31,819	82,885	(271,784)	(29,809)	(895,367)	(895,778)	(1,391,576)	-

# Middle Cities Risk Management Trust

## Statement of Operations and Changes in Members' Equity by Policy Year Inception through June 30, 2007

	Policy Year										
	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
<b>Revenue</b>											
Member premium contributions	\$ 7,662,346	\$ 6,308,090	\$ 6,590,971	\$ 6,164,504	\$ 5,774,981	\$ 5,762,010	\$ 5,537,664	\$ 5,420,133	\$ 5,497,593	\$ 5,196,165	\$ 5,010,634
Investment earnings	1,280,756	801,447	834,930	1,293,481	914,913	1,393,181	1,025,049	656,190	847,993	1,050,609	918,940
Recovery from third party	-	-	-	-	-	-	-	-	-	-	-
Total revenue	8,943,102	7,109,537	7,425,901	7,457,985	6,689,894	7,155,191	6,562,713	6,076,323	6,345,586	6,246,774	5,929,574
<b>Expenses</b>											
Provision for claims:											
Payments	1,344,111	1,211,510	2,076,851	1,709,465	1,990,713	1,713,928	1,708,918	2,098,014	1,744,094	1,401,850	1,712,659
Addition to liabilities for unsettled claims and claims incurred but not reported	-	-	-	-	-	-	-	38,768	-	-	-
Excess insurance premiums	4,465,358	3,839,354	3,395,107	2,651,787	2,620,166	2,499,122	2,656,154	2,383,411	2,387,899	2,098,906	1,903,348
Service fees	148,633	228,755	345,704	331,667	332,209	312,511	346,512	367,905	477,042	393,161	405,820
Short-rate reimbursement	99,234	-	-	-	-	-	-	-	-	-	-
Administrative expenses:											
Salary, wages, and fringe benefits	71,262	69,688	129,119	161,861	189,512	193,637	216,065	168,431	144,059	186,953	188,704
Taxes and insurance	70,694	60,749	55,155	28,486	15,177	16,165	19,242	15,511	12,893	14,122	12,132
Professional fees	5,409	21,739	60,502	46,366	31,931	35,400	34,800	29,510	37,254	39,746	37,961
Office expenses	95,237	72,944	103,057	95,162	108,736	113,843	156,494	152,779	165,499	148,784	175,535
Building fund expense	80,288	-	-	-	-	-	-	-	-	-	-
Organizational costs	41,853	-	-	-	-	-	-	-	-	-	-
Meetings and travel	-	-	30,730	37,478	47,538	41,972	58,232	40,013	38,550	46,329	48,666
STE program expense	-	-	-	33,604	11,095	6,110	7,958	5,203	19,095	15,885	9,139
Other	95,476	37,021	33,251	13,148	19,769	14,439	11,263	11,900	36,782	48,326	31,859
Total expenses	6,517,555	5,541,760	6,229,476	5,109,024	5,366,846	4,947,127	5,215,638	5,311,445	5,063,167	4,394,062	4,525,823
<b>Operating Income</b>	2,425,547	1,567,777	1,196,425	2,348,961	1,323,048	2,208,064	1,347,075	764,878	1,282,419	1,852,712	1,403,751
<b>Nonoperating Expenses</b>											
Distributions to members	2,090,699	1,568,244	1,198,449	2,348,961	1,323,048	2,208,064	1,347,075	693,333	964,521	1,198,984	605,467
Loss from investment in real estate joint venture	-	-	-	-	-	-	-	-	-	-	-
Total nonoperating expenses	2,090,699	1,568,244	1,198,449	2,348,961	1,323,048	2,208,064	1,347,075	693,333	964,521	1,198,984	605,467
<b>Equity Transfer</b>	-	-	467	2,024	-	-	-	-	-	(2,491)	-
<b>Member Contribution</b>	-	37,876	41,063	171,066	128,262	377,405	319,669	175,166	-	-	-
<b>Members' Equity</b>	<b>\$ 334,848</b>	<b>\$ 37,876</b>	<b>\$ 41,063</b>	<b>\$ 171,066</b>	<b>\$ 128,262</b>	<b>\$ 377,405</b>	<b>\$ 319,669</b>	<b>\$ 246,711</b>	<b>\$ 317,898</b>	<b>\$ 651,237</b>	<b>\$ 798,284</b>

# Middle Cities Risk Management Trust

## Statement of Operations and Changes in Members' Equity by Policy Year (Continued) Inception through June 30, 2007

	Policy Year										Total
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07		
<b>Revenue</b>											
Member premium contributions	\$ 5,104,322	\$ 5,130,890	\$ 5,538,400	\$ 5,940,710	\$ 8,797,744	\$ 10,207,094	\$ 10,609,482	\$ 10,698,631	\$ 11,318,139	\$	138,270,503
Investment earnings	370,363	181,047	469,781	474,798	584,477	638,101	614,692	442,790	665,123		15,458,661
Recovery from third party	-	250,000	-	-	-	-	-	-	-		250,000
Total revenue	5,474,685	5,561,937	6,008,181	6,415,508	9,382,221	10,845,195	11,224,174	11,141,421	11,983,262		153,979,164
<b>Expenses</b>											
Provision for claims:											
Payments	2,104,467	2,265,409	2,400,013	1,743,922	2,820,966	2,854,920	2,157,359	1,591,870	1,316,575		37,967,614
Addition to liabilities for unsettled claims and claims incurred but not reported	-	-	-	363,810	538,409	306,547	750,828	1,269,387	3,665,224		6,932,973
Excess insurance premiums	1,957,357	2,039,835	2,190,980	2,492,794	3,902,995	3,999,774	4,121,787	3,831,456	4,793,452		60,231,042
Service fees	441,779	527,725	499,747	424,788	476,335	428,892	425,920	457,820	461,660		7,834,585
Short-rate reimbursement	-	-	-	-	-	-	-	-	-		99,234
Administrative expenses:											
Salary, wages, and fringe benefits	187,485	162,945	170,350	212,613	207,486	182,022	183,717	148,740	122,789		3,297,438
Taxes and insurance	28,556	27,079	21,862	32,929	33,604	34,064	29,630	44,790	23,568		596,408
Professional fees	27,931	60,915	54,718	45,196	49,015	68,814	68,134	66,495	191,572		1,013,408
Office expenses	143,615	145,055	157,176	211,915	215,071	257,623	270,704	272,753	263,996		3,325,978
Building fund expense	-	-	-	-	-	-	-	-	-		80,288
Organizational costs	-	-	-	-	-	-	-	-	-		41,853
Meetings and travel	41,045	45,716	47,903	35,366	28,004	36,405	36,290	32,079	16,134		708,450
STE program expense	10,771	9,926	3,600	493	8,427	1,806	5,793	5,418	234		154,557
Other	14,550	49,861	43,529	3,114	5,190	36,736	4,865	7,893	1,826		520,798
Total expenses	4,957,556	5,334,466	5,589,878	5,566,940	8,285,502	8,207,603	8,055,027	7,728,701	10,857,030		122,804,626
<b>Operating Income</b>	517,129	227,471	418,303	848,568	1,096,719	2,637,592	3,169,147	3,412,720	1,126,232		31,174,538
<b>Nonoperating Expenses</b>											
Distributions to members	184,516	85,271	140,335	-	-	-	-	-	-		15,956,967
Loss from investment in real estate joint venture	-	-	-	-	-	-	-	-	-		50,398
Total nonoperating expenses	184,516	85,271	140,335	-	-	-	-	-	-		16,007,365
<b>Equity Transfer</b>	-	-	-	(33,805)	3,805	30,000	-	-	-		-
<b>Member Contribution</b>	-	-	-	-	-	-	-	-	-		1,250,507
<b>Members' Equity</b>	<u>\$ 332,613</u>	<u>\$ 142,200</u>	<u>\$ 277,968</u>	<u>\$ 814,763</u>	<u>\$ 1,100,524</u>	<u>\$ 2,667,592</u>	<u>\$ 3,169,147</u>	<u>\$ 3,383,612</u>	<u>\$ 1,104,942</u>	<u>\$</u>	<u>16,417,680</u>

# Middle Cities Risk Management Trust

## Statement of Operations and Changes in Members' Equity by Policy Year Year Ended June 30, 2007

	Policy Year										
	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
<b>Revenue</b>											
Member premium contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	-	-	-	24,185	54,354	111,338	97,070
Total revenue	-	-	-	-	-	-	-	24,185	54,354	111,338	97,070
<b>Expenses</b>											
Provision for claims:											
Payments	-	-	-	-	-	-	-	236	-	-	5,245
Addition to liabilities for unsettled claims and claims incurred but not reported	-	-	-	-	-	-	-	8,881	-	-	-
Excess insurance premiums	-	-	-	-	-	-	-	-	-	-	-
Service fees	-	-	-	-	-	-	-	-	-	-	-
Administrative expenses:											
Salary, wages, and fringe benefits	-	-	-	-	-	-	-	-	-	-	-
Taxes and insurance	-	-	-	-	-	-	-	-	-	-	-
Professional fees	-	-	-	-	-	-	-	-	-	-	-
Office expenses	-	-	-	-	-	-	-	-	-	-	-
Meetings and travel	-	-	-	-	-	-	-	-	-	-	-
STE program expense	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Total expenses	-	-	-	-	-	-	-	9,117	-	-	5,245
<b>Operating Income</b>	-	-	-	-	-	-	-	15,068	54,354	111,338	91,825
<b>Nonoperating Expenses</b>											
Distributions to members	-	-	-	-	-	-	9,608	169,433	263,544	539,899	235,487
Loss from investment in real estate joint venture	-	-	-	-	-	-	-	-	-	-	-
Total nonoperating expenses	-	-	-	-	-	-	-	-	-	-	-
<b>Members' Equity - Beginning of year</b>	334,848	37,876	41,063	171,066	128,262	377,405	329,277	401,076	527,088	1,079,798	941,946
<b>Members' Equity - End of year</b>	<b>\$ 334,848</b>	<b>\$ 37,876</b>	<b>\$ 41,063</b>	<b>\$ 171,066</b>	<b>\$ 128,262</b>	<b>\$ 377,405</b>	<b>\$ 319,669</b>	<b>\$ 246,711</b>	<b>\$ 317,898</b>	<b>\$ 651,237</b>	<b>\$ 798,284</b>

# Middle Cities Risk Management Trust

## Statement of Operations and Changes in Members' Equity by Policy Year (Continued) Year Ended June 30, 2007

	Policy Year										Total
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07		
<b>Revenue</b>											
Member premium contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,318,139	\$	11,318,139
Investment earnings	40,350	17,287	33,726	79,982	50,276	225,453	244,524	152,923	665,123		1,796,591
Total revenue	40,350	17,287	33,726	79,982	50,276	225,453	244,524	152,923	11,983,262		13,114,730
<b>Expenses</b>											
Provision for claims:											
Payments	145	-	13	39,218	269,246	34,171	123,041	646,874	1,316,575		2,434,764
Addition to liabilities for unsettled claims and claims incurred but not reported	-	-	-	24,521	(634,017)	(286,010)	(721,925)	(2,038,450)	3,665,224		18,224
Excess insurance premiums	-	-	-	-	-	-	-	-	4,793,452		4,793,452
Service fees	-	-	-	-	-	-	-	3,160	461,660		464,820
Administrative expenses:											
Salary, wages, and fringe benefits	-	-	-	-	-	-	-	-	122,789		122,789
Taxes and insurance	-	-	-	-	-	-	-	-	23,568		23,568
Professional fees	-	-	-	-	-	-	-	-	191,572		191,572
Office expenses	-	-	-	-	-	-	-	-	263,996		263,996
Meetings and travel	-	-	-	-	-	-	-	-	16,134		16,134
STE program expense	-	-	-	-	-	-	-	-	234		234
Other	-	-	-	-	-	-	-	-	1,826		1,826
Total expenses	145	-	13	63,739	(364,771)	(251,839)	(598,884)	(1,388,416)	10,857,030		8,331,379
<b>Operating Income</b>	40,205	17,287	33,713	16,243	415,047	477,292	843,408	1,541,339	1,126,232		4,783,351
<b>Nonoperating Expenses</b>											
Distributions to members	97,469	41,638	81,418	-	-	-	-	-	-		1,438,496
Loss from investment in real estate joint venture	-	-	-	-	-	-	-	-	21,290		21,290
Total nonoperating expenses	97,469	41,638	81,418	-	-	-	-	-	21,290		1,459,786
<b>Members' Equity - Beginning of year</b>	389,877	166,551	325,673	798,520	685,477	2,190,300	2,325,739	1,842,273	-		13,094,115
<b>Members' Equity - End of year</b>	<b>\$ 332,613</b>	<b>\$ 142,200</b>	<b>\$ 277,968</b>	<b>\$ 814,763</b>	<b>\$ 1,100,524</b>	<b>\$ 2,667,592</b>	<b>\$ 3,169,147</b>	<b>\$ 3,383,612</b>	<b>\$ 1,104,942</b>	<b>\$</b>	<b>\$ 16,417,680</b>